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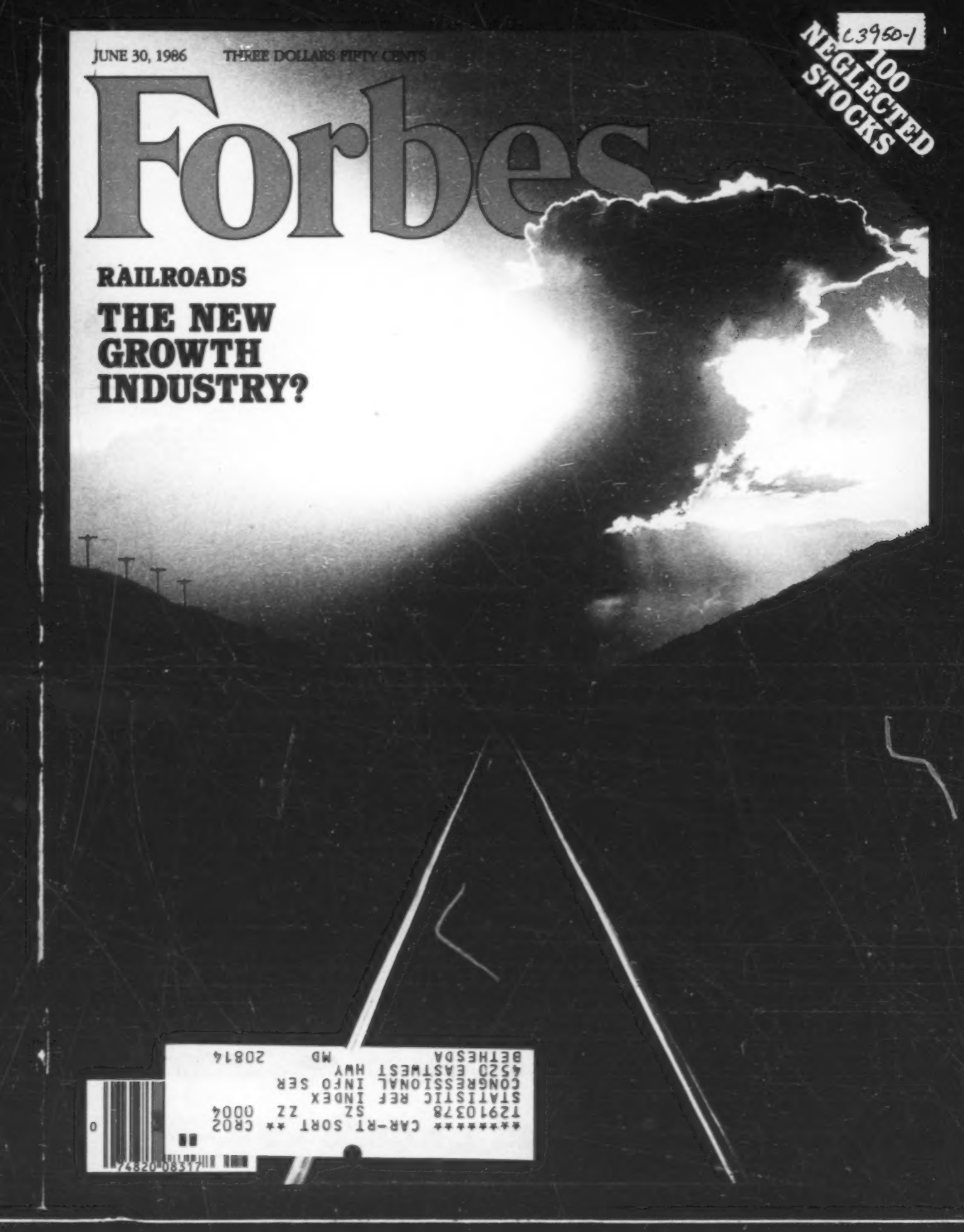
JUNE 30, 1986 THREE DOLLARS FIFTY CENTS

Forbes

100 NEGLECTED STOCKS



RAILROADS

THE NEW GROWTH INDUSTRY?

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JUNE 30, 1986
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Edited by Howard Banks

BETTING ON AMERICA'S FUTURE

Corporate R&D spending is staying high

CORPORATE SPENDING ON AMERICA'S FUTURE, on research and development, is expected this year to be close to 10% over 1985's.

That follows an 11% increase, in current dollars, in both 1985 and 1984, according to National Science Foundation figures.

The performance is good in real (inflation-adjusted) terms, too. But, warns Jules Dugas of Battelle's Columbus Division, R&D suffers a higher inflation rate than ordinary consumer prices. "We've solved all the easy problems," he explains. "Everything now requires more and more equipment and money."

By Dugas' reckoning, real growth in corporate R&D spending is running at around 4.5% to 5% a year. The total, some $58 billion in 1986, will be at an alltime high. (Universities and research institutes will also raise $4 billion on their own account annually.)

Federal research funding is up, too—a consequence of increased defense spending—but the feds are putting up only $54.5 billion, or 47%, of the $116.5 billion expected to be spent this year on R&D. In the 1960s federal R&D spending averaged 64% of the total.

Tax incentives have little to do with it

SIMPLISTIC THOUGH IT SEEMS, part of the rise in corporate R&D spending must be attributed to a desire to restore U.S. competitiveness.

Don't, however, overestimate the importance of the 25% tax credit for R&D spending introduced in 1981. Private R&D spending took off two years before that. Moreover, the credit lapsed at the end of last year, but spending has yet to waver.

Sentiment in both the House and Senate is now running in favor of restoring the R&D tax credit. The best that can be said for it is that it might give a shove to companies now on the fence. Corporate R&D spending did not decline as sharply as history would have predicted during the 1981-82 recession, and maybe the tax credit that became available that year was an encouragement.

Is the famine over for good?

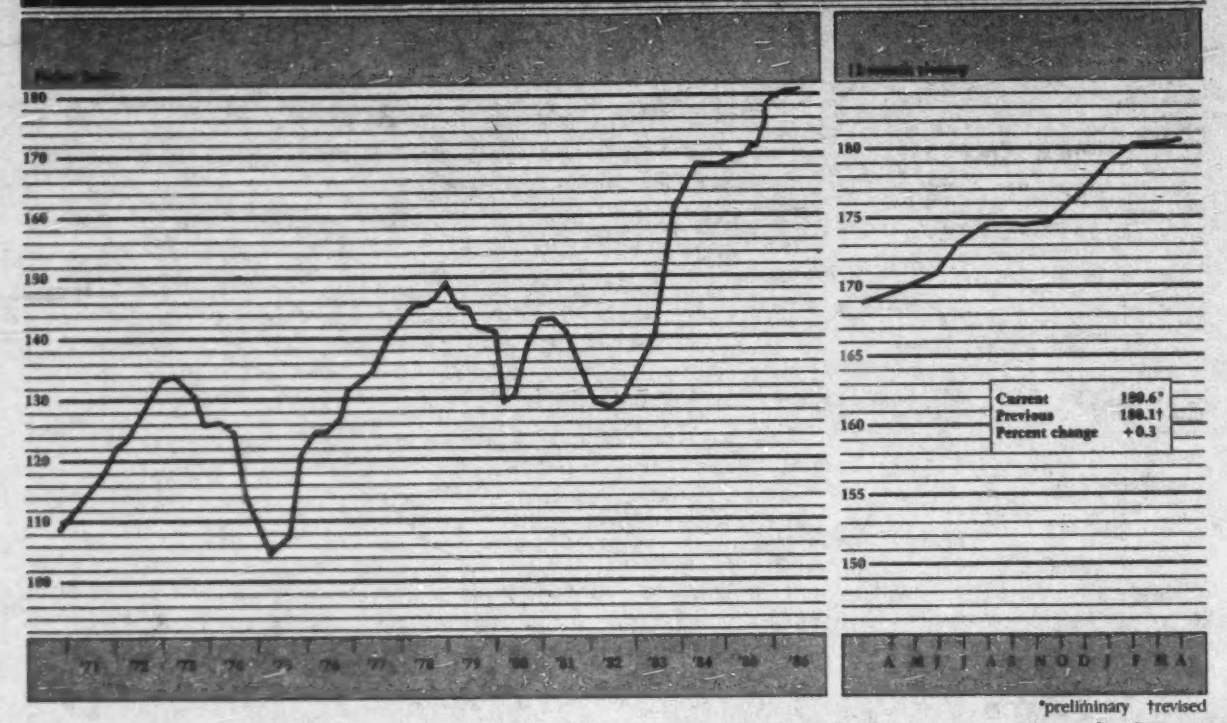
THERE ARE WORRIES AHEAD. After a lag, R&D spending relates to corporate profits and cash flow. Both are currently less than robust.

And government funds are being squeezed. Gramm-Rudman will cut some $2 billion, or 5%, from defense R&D (perhaps more, since soldiers won't be sacked) and maybe $1 billion, or nearly 10%, from funds for universities and research institutes. (Corporations, which put up less than $1 billion for "campus" R&D, can't fill the gap.)

Three areas will absorb much of the federal money. So-called Star Wars and Stealth, both dear to President Reagan's heart, are two. The third is NASA. A replacement Shuttle and rebuilding of existing ones will cost maybe $4 billion over the next two to three years.

There was a near decade-long famine in R&D spending in the early 1970s. It wasn't until 1977 that real R&D spending got back to the 1969 level. Perhaps America is paying for that famine now in, among other things, its astonishing appetite for imported goods. If the famine is really over, that's welcome news indeed.

The Forbes Index



*preliminary †revised

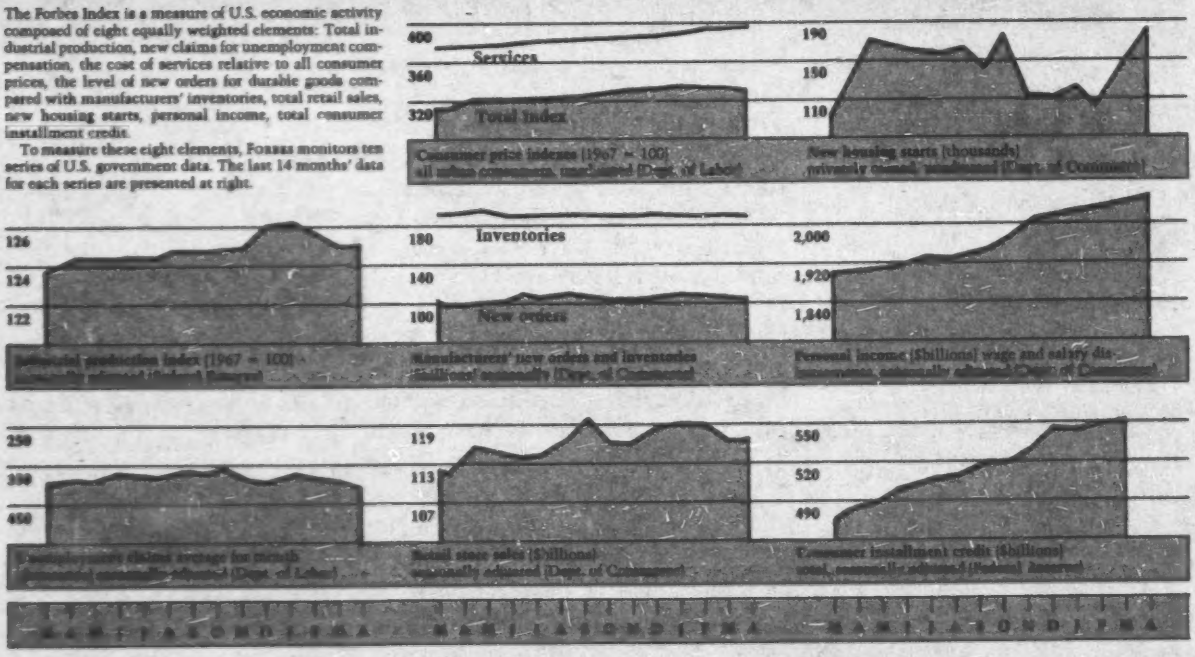
Doldrum economy. Orders for durable goods declined by 0.2% from the previous month; manufacturers' inventories slid 0.3%. The resulting slight decrease in the ratio of inventories to new orders counts as a plus in the Forbes Index, which closed out April 0.3% higher than March.

With prices falling in the last two months, the sluggishness in the economy—particularly in manufacturing—could tempt the Federal Reserve to ease credit. (During the last three months the money supply has been growing at a 12% rate.) That could rekindle inflation. So could a declining dollar if U.S. companies competing with imports raise their prices. So could a mere plateauing in food and energy prices if the other components in the price index continue their recent 4% inflation rate.

The Forbes Index Components

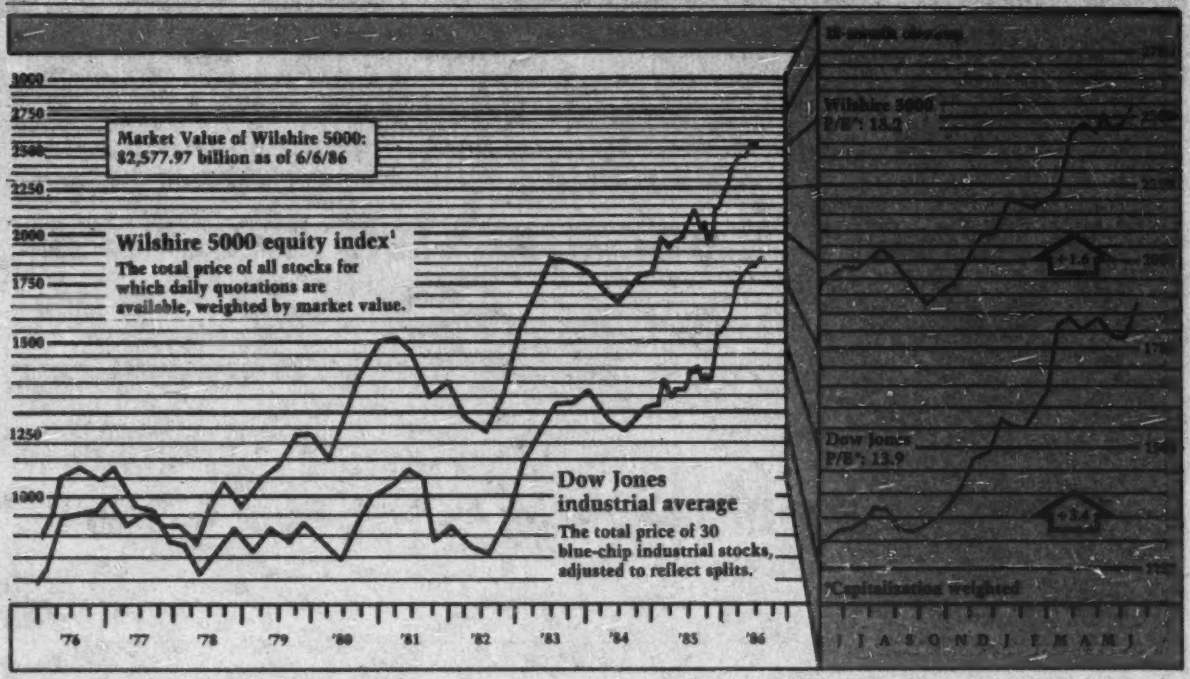
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Live for tomorrow. That's what the market seems to be saying, in pricing The Forbes Sales 500, for example, at a lavish 16.6 times latest 12-month earnings. If earnings estimates are on target, the 500 stocks cost only 11.1 times what they will earn in 1987.

The betting on the come is even heavier for the Wilshire index of nearly 5,800 stocks, which are mostly small companies. The combined value of the stocks in the index rose nearly $73 billion, or 3%, in the last four weeks, in spite of a decline in collective earnings over the past month. (A lot of companies recently reported disappointing first-quarter results, and those displaced first-quarter 1985 numbers in the tally of latest 12-month earnings.) As a result, the price/earnings multiple on the Wilshire index, figured on trailing earnings, went from 17.2 to 18.2—an alltime high since the index first tracked P/Es in 1982.

If investors sense that rosy earnings projections are not going to be met, multiples could come crashing down.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.0	2.9	5.4	2.8	2.8	2.9
in last 52 weeks	29.6	27.7	43.3	28.2	23.0	37.5

Stock performance based on six key investor variations

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $
in last 4 weeks	2.5	2.6	1.6	1.9	2.4	1.6	1.8	2.9	2.7	2.8	4.1	2.2
in last 52 weeks	30.8	47.9	74.4	31.3	31.9	41.8	25.7	51.7	65.9	38.5	44.6	31.6

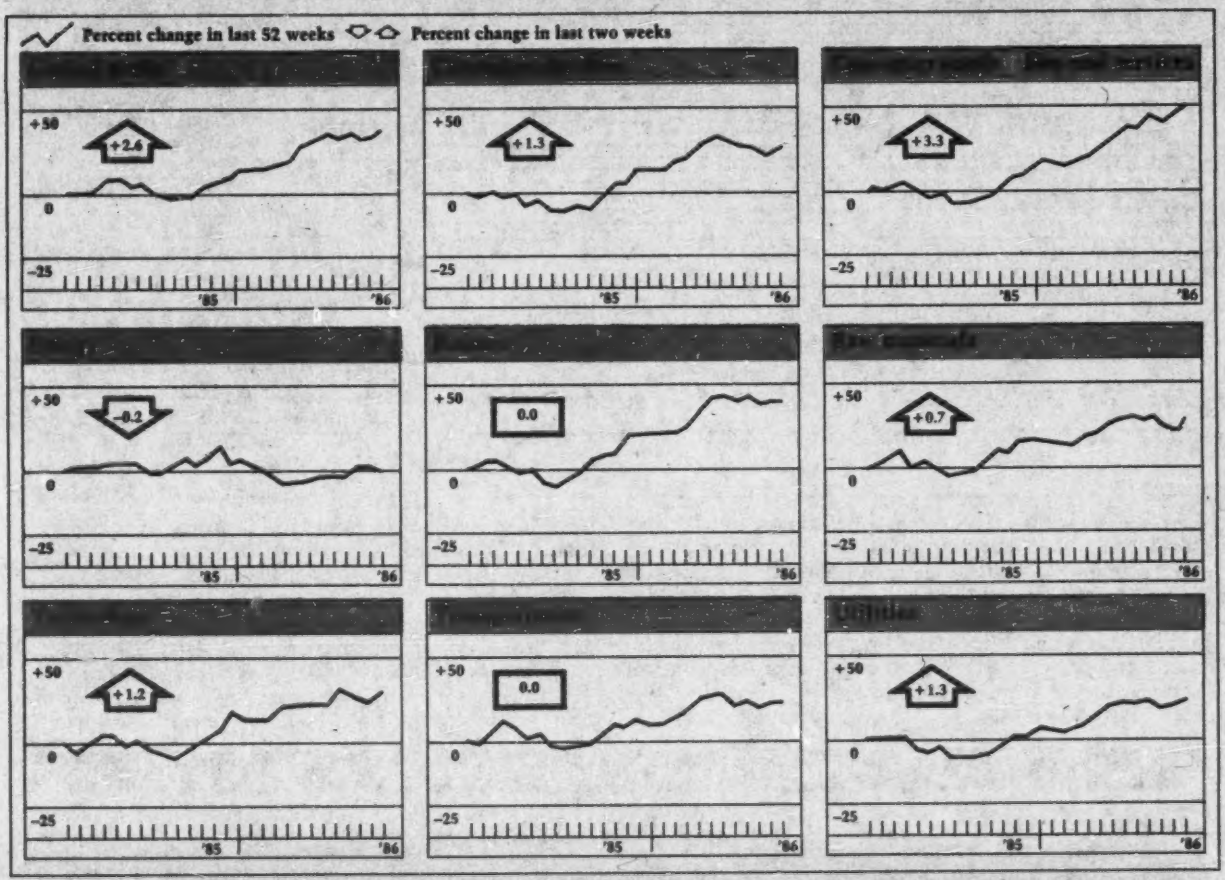
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/6/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Falling energy prices have not been a cure-all for transportation. They help railroads on such business as coal hauling whenever the railroad has no competition. But in the battle against the truckers, cheap fuel is a mixed blessing for rails *(see cover story, p. 86)*. At the same time, shipping volume for railroads and truckers has been curtailed by depressed prices for resources and weakness in the manufacturing sector. And the airlines have a way of giving back fuel savings to the consumer via fare wars.

During the last two weeks transportation stocks broke even, while the overall market was up 1.6%. In 52 weeks the transportation group rose 18%, vs. 29.6% for the Wilshire index. Only energy shares have a worse record. But the trip may not be over for the transportation sector.



What The Analysts Think

The analysts strike back. The Institutional Brokers Estimate System reports that nine earnings estimates for 1986 were lowered for every five that were raised. Bad, but not so bad as it used to be. As recently as March there were ten cuts to every five increases. And the estimates are going up for finance and consumer nondurables.

Performance period	Average earnings per share	P/E
latest 12 months	$2.83	16.6
1986 estimates	3.67	12.8
1987 estimates	4.27	11.1

1	Finance	$3.56	11.1	1.52%	1.40 %
2	Consumer nondurables	2.29	17.2	1.27	1.77
3	Utilities	3.37	9.6	-0.05	1.75 †
4	Raw materials	2.00	16.2	-0.38	-2.40
5	Technology	2.62	15.1	-0.73	-1.04
6	Capital goods	2.66	14.9	-0.81	-1.13
7	Consumer durables	3.79	10.4	-0.97	-1.73
8	Energy	2.38	12.4	-1.17	-7.25
9	Transportation	2.14	13.8	-2.50	-4.41

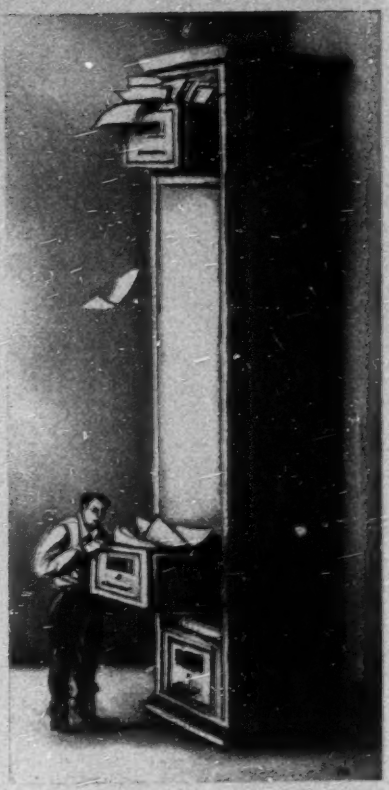
Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 6/6/86. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York. †revised

Statistical Spotlight

People who watch Atlantic Richfield have a lot of company—41 security analysts. The stocks rounded up here, in contrast, are each tracked by only one analyst.

Consensus of one



Karen Skolper

By Michael Granian

RESEARCH SHOWS THAT stocks with very poor coverage have done far better than stocks that are scrutinized by everyone on The Street," says Alexander Gould of Institutional Brokers Estimate System (IBES), which collects and publishes analysts' predictions.

How could lightly covered stocks do particularly well? Without a flock of analysts to push them, many of these stocks haven't yet attracted heavy institutional buying. If they do, they could enjoy outsize gains.

It isn't only the little companies that are neglected by Wall Street. Eight analysts track Biogen NV, a hot $21 million (sales) biotech company. But there's only one analyst on the IBES system following Tecumseh Products, an $800 million manufacturer of refrigeration equipment.

One-shot estimates are chancier, to be sure. The sole analyst on IBES following Tecumseh Products predicts 1986 earnings of $12.50, vs. actual 1985 earnings of $10.98. Tecumseh itself, which is being pummeled by cheap imports, is less sanguine. It will be lucky, says a spokesman, to match 1985 results.

IBES has a 1986 earnings estimate from only one analyst for each of the following 100 issues. A number of these neglected stocks are savings and loans that converted from mutual ownership to investor ownership over the past few years. Other Wall Street newcomers include Lancer, IP Timberlands and Luskin's. Luskin's, which sells at 6 times hoped-for 1986 earnings, operates a chain of consumer electronics stores. Over one-third of these firms sell for less than 10 times estimated 1986 earnings.

Sales at Recoton, a New York-based marketer of electronic equipment, are up sharply. But Albert Klein, who follows Recoton for New York-based Edward Viner & Co., cautions that "for earnings to go from 57 cents to $1.15 everything must fall into place—something that rarely happens." ■

100 Neglected Stocks

Exch	Company/business	Price recent	Price 52-week high-low	Earnings per share 1985	Earnings per share 1986 est	Earnings per share 1987 est	1986 est P/E	Sales* ($mil)
o	Arden Intl Kitchens/licenses Bonanza restaurants	3⅜	3⅜– 1⅞	0.10	0.25	NA	13.5	10
o	Athens Federal Savings/savings & loan	23	23¾–11¼	2.11	2.50	NA	9.2	39
a	Badger Meter/precision instruments	17¾	18¼– 9⅛	0.92	1.15	NA	15.4	56
o	Bank of Delaware/bank holding	40	40 –27	3.49	3.90	NA	10.3	145
o	Berkline/furniture	15	16¾–10¼	0.50	1.15	1.40	13.0	86

*Most recent fiscal year. NA: Not available or not applicable.

Sources: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones, & Ryan via Micro/Scan Data on diskette from Isys Corp.; Standard & Poor's Stockpak-II System; The Unlisted Market Guide; Forbes.

100 Neglected Stocks

Exch	Company/business	Price: recent	Price: 52-week high-low	Earnings per share: 1985	Earnings per share: 1986 est	Earnings per share: 1987 est	1986 est P/E	Sales* ($mil)
a	BIC/pens & disposable products	28½	29¾–12¾	$1.94	$2.25	NA	12.7	$263
n	Burman's/supermarkets	21	21 – 7	1.77	2.25	NA	9.3	987
o	Robert C Brown & Co/financial consultant	10½	15¼– 9¼	0.55	1.00	$1.10	10.5	14
n	Carrols/Burger King franchisee	10	11 – 6½	0.80E	NA	NA	NA	145
o	Century Papers/paper products	10	11¾– 7¾	1.10E	1.30	NA	7.7	103
a	**Champion Products/athletic apparel**	35⅛	35⅛–13⅛	1.44	2.30	3.00	15.4	118
o	**Chittenden/bank holding**	41¼	43 –19½	3.02	3.40	NA	12.1	87
a	**CMI/heavy equipment**	5¾	12⅝– 5¼	0.15	0.65	1.50	8.8	135
o	**Coast Federal Savings & Loan/savings & loan**	16½	20⅞–13¾	1.79	2.00	2.50	8.3	121
o	**Cochrane Furniture/furniture**	15	15 –10	1.85E	2.10	NA	7.1	28
o	Collective Fedl Savings & Loan/savings & loan	28½	29½– 9⅝	2.52	4.35	NA	6.6	127
o	ComGen Technology/electronics	2¾	3½– 1	0.13	0.27	NA	10.2	26
n	Connecticut Energy/natural gas utility	24	24⅝–17	1.81	2.10	NA	11.4	164
o	Consol Cap Rlty Investors/REIT	8½	18½– 8¼	1.28	1.56	NA	5.4	26
o	Courier Dispatch Group/courier	4	6⅛– 4	0.27	0.45	NA	8.9	29
o	**Datasouth Computer/computer equipment**	2½	4⅛– 2⅛	0.20	0.22	NA	11.4	21
o	**DCNY/trades & underwrites credit instruments**	46½	55 –24	5.89	8.65	NA	5.4	240
o	**Detrex Chemical Industries/specialty chemicals**	37¼	37½–31	3.01	3.85	4.75	9.7	88
o	**DH Technology/computer equipment**	6	6½– 2	0.05	0.60	1.00	10.0	8
n	**Educational Computer/training simulation equip**	11¼	12 – 8⅛	0.63	0.70	NA	16.1	24
o	Equitable Iowa/insurance	30¼	32½–20¼	1.78	2.60	NA	11.6	447
a	Excel Industries/vehicular windows	13⅜	15½– 5⅞	0.75	1.45	NA	9.4	92
a	Fab Industries/textiles	30⅛	30⅝–18⅛	2.39	2.70	NA	11.2	111
o	Farm & Home Savings Assn/savings & loan	22¼	28¼–19	1.95	2.50	3.80	9.1	295
n	Fnl Corp of Santa Barbara/savings & loan	13	16½– 4¼	0.59	3.00	NA	4.3	319
o	**First Empire State/bank holding**	85	91 –52½	8.25	9.25	NA	9.2	264
o	**First Hawaiian/bank holding**	53½	54⅛–28½	4.06	4.60	NA	11.6	298
o	**First NH Banks/bank holding**	29¾	32 –14	2.65	3.20	NA	9.3	139
o	**First Southern Fedl Savings & Loan/savings & loan**	17⅜	22⅛–10	3.31	4.05	4.40	4.4	206
o	**First Valley/bank holding**	29½	29½–14½	2.23	2.45	NA	12.0	110
n	General Homes/home-building	14¾	15⅛– 4⅜	0.33	1.50	1.35	9.8	350
n	Great Atlantic & Pacific Tea/supermarkets	24	25¼–15¼	1.48	1.75	NA	13.7	6,615
a	Guardsman Chemicals/paints & varnishes	14⅛	14⅞– 9¼	1.05	1.25	1.50	11.3	87
n	Ingredient Technology/food processing	19½	20⅜–11⅜	1.14	1.40	NA	13.9	93
o	InterContinental Life/insurance	16	18⅛– 9⅛	1.13	1.50	NA	10.7	33
n	IP Timberlands Ltd/ltd partnership, timber	26⅛	28⅛–21•	1.99•	2.50	2.60	10.7	133•
o	**Josyln/transmission equipment**	34⅛	34⅛–28	2.37	2.65	NA	12.9	162
o	**Keane/software & services**	14¼	18½–11⅜	0.82	1.08	1.25	13.6	90
o	**Laclede Steel/steel**	22	22½–14½	1.94	2.50	NA	8.8	234
o	**Lancer/beverage dispensers**	18⅛	19 –13½•	1.04	1.30	1.60	13.9	28
o	Lindberg/metal fabricating & fab equipment	7⅛	7⅛– 4½	0.29	0.50	NA	14.3	69
o	Luskin's/electronics retailer	9	14½– 8½•	0.92	1.50	NA	6.0	110
o	Mars Stores/discount department stores	9	21½– 9	0.42	1.00	1.40	9.0	110
n	McDonald & Co Investments/securities brokerage	13¼	14⅜– 8½	0.96	1.20	NA	10.9	68
o	McGrath RentCorp/rent & sell modular offices	14¼	19 – 8	0.82	1.00	1.20	14.3	14

*Most recent fiscal year. •Range less than one year. E: Estimate. NA: Not available or not applicable.

Sources: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones, & Ryan via MicroScan Data on diskette from Ips Corp.; Standard & Poor's Stockpak-II System, The Unlisted Market Guide; *Forbes.*

100 Neglected Stocks

Exch	Company/business	Price recent	Price 52-week high-low	Earnings per share 1985	Earnings per share 1986 est	Earnings per share 1987 est	1986 est P/E	Sales* ($mil)
n	McNeil Corp/industrial equipment	31¼	35 –23	$2.25	$2.50	NA	12.6	$178
o	Merry Land & Investment/real estate devel	15	15½–16¾	1.06	1.20	$1.40	12.5	10
a	Metex/antenna systems	13⅜	16¾–11	1.51	1.80	2.30	7.6	29
o	Metropolitan Fed Savings & Loan/savings & loan	30	34½–18¼•	2.64•	3.75	NA	8.0	105
z	Nantucket Industries/intimate apparel	10	12⅜– 6⅜	0.69	0.98	NA	10.2	37
o	Natl Western Life Ins/insurance	21¾	23 –12⅝	2.58	3.00	NA	7.3	231
o	North Fork Bancorp/bank holding	40¾	41½–14⅛	2.89	3.20	NA	12.7	38
o	OMI/maritime shipping	5⅞	6⅜– 3¼	0.27	0.70	NA	8.4	190
o	Patten/real estate	26½	29½–10¼•	1.40	1.65	NA	16.1	35
o	Phoenix Medical Tech/health care products	3¼	8⅜– 3½	0.29	0.45	0.65	8.3	11
o	Piedmont Bankgroup/bank holding	34½	34½-25	2.43	3.20	NA	10.8	34
a	PLM Cos/lease transportation equip	7⅜	9 – 3⅜	0.81	0.90	1.10	8.2	21
o	Preferred Financial/fund manager	6⅛	6⅜– 3½	0.40	0.60	0.75	10.4	11
o	Preferred Savings & Loan Assn/savings & loan	6½	7⅜– 5½	0.58	0.85	0.95	7.6	31
o	Princeville Development/real estate devel	9	9⅜– 5	0.17	0.80	NA	11.3	10
o	Profit Systems/freight forwarding	13¼	18⅛– 9¼	0.33	1.30	NA	10.2	125
o	ProGroup/athletic equipment & apparel	7⅛	9⅛– 5¼	0.27	0.67	NA	11.4	26
n	Pueblo International/supermarkets	17⅛	18⅛–10⅞	1.43	1.60	NA	10.7	597
o	Pulaski Furniture/wooden furniture	40	41⅜–20¾	1.25	1.65	NA	24.2	74
o	Reading Co/real estate development	25½	25⅛–18¾	0.32	3.10	2.50	8.2	36
o	Recoton/electronics	12⅛	13⅜– 6	0.57	1.15	NA	11.0	27
a	Regal-Beloit/precision instruments	19⅜	19⅜–11⅝	1.06	1.60	NA	12.3	55
n	RJ Financial/securities brokerage	16¼	20 – 8⅜	1.07	1.35	NA	12.0	86
o	Roanoke Electric Steel/mini steel mill	19¾	20 – 8⅜	1.58	1.80	NA	11.0	113
o	Rocky Mount Undergarment/apparel	5⅛	10 – 3⅛	0.40	0.80	0.95	6.6	40
o	Selecterm/computer equipment	7⅛	11½– 6	0.76	0.85	1.00	8.7	27
o	Society For Savings/bank	24⅞	28⅛– 5⅞	0.91	1.88	NA	13.2	294
a	Stanwood/men's, boys' apparel	11¾	13⅜– 7¾	0.57	1.15	NA	10.2	117
a	Susquehanna/building materials	5	5⅛– 3¾	0.40	0.75	NA	6.7	111
o	Tecumseh Products/refrigeration equipment	126½	130 –86½	10.98	12.50	13.50	10.1	829
a	Turner Corp/construction & real estate develop	26⅜	31⅜–23⅛	2.64	3.25	3.75	8.2	76
o	Union National/bank holding	40¾	41½–23½	2.63	2.90	3.20	14.1	252
n	United Brands/food processing	26⅜	27⅛–16	2.25E	NA	NA	NA	3,220
o	United Dominion Realty Trust/REIT	13½	14½–12½	0.28	1.00	NA	13.5	19
o	United Financial Banking/bank holding	16½	17½–11½	1.41	1.90	2.35	8.7	6
o	United Tote/computer sys for gaming ind	5¼	11½– 4¼	0.65	0.95	NA	5.5	8
o	USACafes/fast-food restaurants	6	6⅜– 3⅜	0.40	0.53	NA	11.3	20
o	Valley Bancorporation/bank holding	43	46 –26	3.22	3.60	NA	11.9	168
n	Vendo/vending machines	7⅛	12 – 6¼	0.44	0.70	NA	10.9	89
o	Virginia Beach Fed Savings & Loan/savings & loan	6⅜	8⅜– 4¼	0.89	1.27	NA	5.0	89
o	Warwick Ins Managers/insurance	13	12½– 7½	0.65	0.90	1.45	13.8	21
o	Weinfields/jewelry retailer	17¼	18½–11½	1.52	1.70	NA	10.1	49
a	Wiener Enterprises/apparel retailer	10⅜	13½– 8½	0.85	1.65	NA	6.5	58
o	Woodhead Inds/electronics	13½	18 –11¼	0.63	1.20	NA	11.3	60
o	York Federal Savings & Loan/savings & loan	30	25½– 6⅜	1.37	1.60	1.75	12.5	59

*Most recent fiscal year. • Range less than one year. E: Estimate. NA: Not available or not applicable.

*Sources: The Institutional Brokers Estimate System (IBES), a service of Lynch, Jones, & Ryan via Micro*Scan Data on diskette from Ips Corp.; Standard & Poor's Stockpak-II System,* The Unlisted Market Guide; *Forbes.*